

LEADERSHIP IN THE FIELD: Interviews With Global Leaders

By Russell Reynolds Associates
with Roger O. Crockett

In this interview Centrica's Chairman offers insight on the importance of boardroom culture, the problem with gender quotas, the Chairman's role in hostile takeovers, and making sure executives earn their rewards.

Centrica's Chairman Sir Roger Carr on the Role of the Chairman

An Edited Transcript

Chapter 1 - Setting the cultural tone of the board.

Roger Crockett: Sir Roger, let's start by discussing the chairman's role as it relates to the structure and culture of the board.

Sir Roger Carr: It starts, I think, with picking the team. You then set the tone. And finally, you shape the culture of an organization. And you do that from a position of influence, of course, as chairman, rather than of power. But if you do those things well, the board then tends to function well and acts as a unitary group in the interests of the corporate entity as a whole.

Roger Crockett: Well, in setting that tone, how do you go about that? What steps do you take? How do you demonstrate your influence?

Sir Roger Carr: Well, I think you have to have clear values as a chairman as to what you believe is the right way to run a business. It is a cultural thing. It's also a philosophical issue: The belief in what is right and wrong, the way a company should work, the degree of transparency it should operate with, whether it works positively for shareholders, whether it looks more broadly at all stakeholders. So, you have to shape a view. And out of that, I think you set a cultural tone, and from that a board will develop in a specific direction.

Chapter 2 - "Yes to women on boards, no to quotas."

Roger Crockett: You lead the nominations committee as Chair. What are your thoughts on the current rules that are designed to try to increase the number of women, and thus diversify boards of directors?

Sir Roger Carr: I think with this specific issue on gender diversity it's part of a broader issue. Boards need to have a broad skill set. And they need to be as a group, people who reflect all the stakeholders of a company—whether it's the customers, the employees, or indeed, the shareholding community. So, when you get down to gender, it's pretty important that within a board women make up a sensible and material part of the board grouping. So, I'm very positive about the move towards broadening the role of women on boards in this country. I'm very against quotas. I'm very positive about aspirational targets, and I think the Davis Report, which effectively targets 25% of a board by 2015, is a good target to aim for. I think one should see it as something that encourages a very sensible, and in fact, practical solution to having a board that does reflect all of its constituent parts and customers. So, on women on boards I'm very positive. They undoubtedly improve the dynamics, the atmospherics of the boardroom, and in so doing, it helps decision-making and the quality of decision-making.

Chapter 3 - Defending against a hostile takeover.

Roger Crockett: **Let's talk about the visibility of the board and the chairman, particularly during difficult situations. Mergers and acquisitions can be pressure-cooked times for a company. Given your experience—say at Cadbury, as a former director there, a former chair overseeing M&A activity—what is the role of the chairman when there is an important acquisition on the front?**

Sir Roger Carr: I think that when you take the role you do accept that it is one of influence rather than direct power. I think you also accept that you will spend much of the time in the wings, and not too much of the time at center stage. Now, in the case of acquisitions, my fundamental position is that acquisitions are driven by executive management. They are led by executive management, and the execution is through executive management. And in those circumstances, the chairman and the non-executives will be a check and balance.

I think in a reverse situation, where the company which you chair becomes the prey, then the chairman has a different role because it is the company that is the prey, and therefore, the chairman is responsible for it in those circumstances. And I think at that time, the chairman has to be prepared to be very visible and very vigorous in the defense of his company in the interest of the whole of the stakeholder community, but particularly the fiduciary duty he has to the shareholders. And to do that, the chairman must agree, I think, at the outset with management the roles, who is center stage, who is fundamentally running the business for performance in that period, who is seen as the primary spokesman for the defense, and who is seen as the primary manager of the business during the defense. Now, with that level of clarity, everybody then gets on with the job and is charged with delivering their part of the responsibilities in the defense process. And I think that works well. So, it's a time in my own view, where chairmen have to be seen to be in charge of the board and in charge of the fortunes of the company in the face of a direct and hostile attack, but working in partnership with the executives.

Chapter 4 - "People should only earn a lot of money when they earn a lot of money."

Roger Crockett: **As both a chairman and President of the CBI, remuneration has been one of those things that's crossed your desk. What is right about executive pay and what's wrong with it?**

Sir Roger Carr: Well, I think the things that are wrong are: Remuneration that is made for failure and remuneration that is made at a high level for a mediocre performance. Simply from a common sense perspective, those things would not be considered appropriate by anybody. Now, conversely, there is absolutely nothing wrong with receiving a rich reward for an exceptional performance. And in that context, I think it's up to the board, particularly in a board such as a FTSE company, which has its own remuneration committee, it's up to the remuneration committee to determine, 'What are the goals that are challenging and what are the rewards that are appropriate?' And within that context, the chairman of the board then can participate with the remuneration committee and help in setting that standard. So, I think it's setting reasonable standards, but accepting that people should only earn a lot of money when they earn a lot of money. That's the key.

There are schemes that actually completely honor those obligations. And you can see in organizations where people are rewarded well for good performance—when both are visible, reward and performance—the shareholders are very often entirely comfortable with that. The friction point is when those two things don't align. When the effort is limited but the reward is huge, that's not acceptable to anybody.

Chapter 5 - Government and business: Creating a productive conversation.

Roger Crockett: **What about alliances between business and government, which are crucial but can sometimes be a little bit tense? What is the chairman's role then in establishing relations with government officials? How visible should the chair or the directors be?**

Sir Roger Carr: Well, I think the chairman does have a role, I mean, as an ambassador for an organization. I don't think it should be confused with the need for the executive engagement with government to represent a particular issue that is challenging for the company and where government is being asked to change behavior in the interests of that company. So the chairman has, I think, a broader role but nevertheless, has a role.

Roger Crockett: And I guess you have to set the guidelines for what role does a CEO take versus what role does the chairman take in its relations with the government so those two aren't confused?

Sir Roger Carr: I think you have to have a joined up communications policy. You have to be on message. You have to be clear about the script for each, and you have to stay in the areas you have agreed you will work in. That way, the message is clear, there is no confusion as to what is being said. And importantly, there is no confusion about the roles of those that are saying it.

Roger Crockett: And so can you share some examples of what business might be doing to help government and improve the economy right now?

Sir Roger Carr: Well, I think business has to recognize that government can only set the climate. It's up to business to deliver the performance, and therefore, the relationship of government and business has to be one of productive conversation. I think businesses need to be clear on what they do want, what are the trigger points that will enable them to perform better—not to simply have a list of difficulties, but much more importantly, a list of opportunities, which if government works towards, can be beneficial to the country as well as the particular business.



Sir Roger Carr is Chairman of Centrica, a top 30 FTSE company with growing energy businesses in the UK and North America. Sir Roger became Chairman in 2004 while he was also Chairman of Michells and Butler, a British owner of pubs and restaurants. He is one of a small number of Chairmen who have headed two boards in Britain's benchmark FTSE 100 index. In 2008, after stepping down from Michells, he was appointed Chairman of Cadbury, the UK's largest candy maker until it was bought by Kraft. Sir Roger, who was knighted in 2011 for his outstanding service to businesses, is also a director of the Court of the Bank of England and president of the Confederation of British Industry.



Roger O. Crockett is a veteran business writer, thought leader and speaker. He is the former Chicago Deputy Bureau Chief for *BusinessWeek* magazine and a contributor to *Harvard Business Review*. His perspectives on business, leadership and diversity are trusted by many of the world's top executives and entrepreneurs.